

Washington, D.C. - Congresswoman Melissa Bean (IL-08) joined several of her colleagues on the House Financial Services Committee Monday in introducing a comprehensive package of legislation designed to protect consumers and investors in the mortgage market. The bill includes provisions sought by Congresswoman Bean to counsel homebuyers seeking certain kinds of risky loans.

Bean is an original cosponsor of the Mortgage Reform and Anti-Predatory Lending Act of 2007, authored by Reps. Brad Miller (D-NC), Mel Watt (D-NC) and Barney Frank (D-MA). The bill will address several problems with a market that has seen a marked increase in foreclosure rates.

The bill includes provisions first spelled out in the Negative Amortization Mortgage Loan Transparency Act, H.R. 3894, previously introduced by Bean. The provisions of that bill called for mortgage originators to specifically disclose if a loan includes negative amortization to first-time homebuyers. Any first-time buyer who chooses a negative amortization loan would be required to receive credit counseling from a HUD-certified counselor.

Negative amortization involves a loan structure that allows a lender to add to a borrower's principal under certain conditions. A borrower could make scheduled loan payments for years but actually owe more to the lender - and own less equity in the home - then at the time of purchase.

"Many borrowers currently in trouble were offered loans that they did not fully understand," Bean said. "In particular, negative amortization loans are complex and, if not understood, can get people into severe financial trouble. It is important to include a counseling requirement for first time borrowers when they are considering negative amortization loans."

Bean's Negative Amortization Mortgage Loan Transparency Act is now included as Section 206, Subsection K of the comprehensive mortgage bill.

The comprehensive Mortgage Reform and Anti-Predatory Lending Act of 2007 has several priorities. First, the bill will establish a federal duty of care, prohibit steering, and call for licensing and registration of mortgage originators, including brokers and bank loan officers.

Second, the new legislation will set a minimum standard for all mortgages which states that borrowers must have a reasonable ability to repay. Third, the legislation attaches limited liability to secondary market securitizers who package and sell interest in home mortgage loans outside of these standards. However, individual investors in these securities would not be liable. Finally, the bill enhances consumer protections for “high-cost loans” under the Home Ownership and Equity Protection Act and includes important protections for renters of foreclosed homes.

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